

USAID/Kazakhstan

Annual Report

FY 2004

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Kazakhstan

Performance:

BACKGROUND: Kazakhstan has made significant economic progress since independence, well surpassing many other former Soviet countries in macro-economic reform. With a per capita GDP of close to \$1,600, 9.5% GDP growth, solid fiscal management, privatization of state-owned enterprises, growing pension funds, and bond and mortgage markets, Kazakhstan is the wealthiest of the Central Asian republics, and will, undoubtedly, continue to serve as an economic reform leader in Central Asia. However, the economy remains dominated by oligarchic interests. Income and social disparities between urban and rural areas and various regions are large and continuing to grow, with 26% of the population living below the poverty line and unemployment registering nearly 9%. In the 1990s, the Government of Kazakhstan succeeded in attracting foreign capital and skill to develop its energy riches. However, the government still has a long way to go before it can expect to attract a substantial amount of foreign investment outside the energy sector. For example, trade barriers need to be eliminated and legislative frameworks and rule of law need to be established to support businesses. Until diversification of foreign investment and small/medium enterprise development is achieved, little progress will be reached in creating a vibrant middle class and overcoming conditions of poverty.

Compared with the rapid pace of economic reform, Kazakhstan's political environment has exhibited far less progress. Even though the Government of Kazakhstan demonstrated positive signs by releasing Mukhtar Ablyazov from prison for a politically-motivated arrest in July 2002, Ghalymzhan Zhaqiyarov, also from the Democratic Choice of Kazakhstan, remains imprisoned for similarly unfounded charges. Furthermore, the government continued to harass and silence its most outspoken critics (e.g., journalists, opposition leaders, and civil society actors) in attempts to maintain control over society. Within Kazakhstan, there continues to be a general lack of civic consciousness, with only a slight increase from last year in the percentage of the targeted population exhibiting civic consciousness and activism. While the population on the whole may not actively engage in advocating for rights, there are, nonetheless, civil society leaders and organizations that are working hard to promote democracy and advance citizen interests. Progress related to media also has not been exceptional. Opposition newspapers and television stations continue to be barred from reporting on issues involving the President, his family, or the "Kazakhgate" controversy; and, there is a draft media law, which if passed, would create numerous hardships for independent media entities. On the elections front, a political parties law was recently passed that, effectively, has narrowed the political spectrum due to stringent re-registration requirements. And, rule of law continues to suffer due to the absence of a properly functioning legal framework and an independent judiciary. Freedom House's indices for democratization and rule of law, have improved slightly since last year, but, with scores of 5.88 and 6.13, respectively (with 7.0 being the worst possible score), are still far from favorable. Corruption also continues to be a significant issue in Kazakhstan. According to Transparency International, Kazakhstan ranks 101 out of 133 countries in terms of corruptness and is one of the 25 most corrupt countries in the world.

With respect to social development, Kazakhstan has experienced unprecedented declines in life expectancy and health status. This is due to a low level (only 2%) of GDP investment in the health sector, compared with international standards of 5% or more, as well as an ineffective health delivery system. A tremendous resurgence of infectious diseases is taking place in Kazakhstan, which poses an immediate threat to the sustainability of the country's transition. Tuberculosis (TB) case notification rates in Kazakhstan are the highest in the world and threaten to grow even higher as multi-drug resistant TB becomes more difficult and costly to cure. In addition, Kazakhstan is on the cusp of a new HIV/AIDS epidemic among intravenous drug users. Although by global standards, HIV prevalence in Kazakhstan remains relatively low, there is an escalating trend (from 100 cases in 1996 to 3,730 cases today) and probable movement of HIV/AIDS into the general population.

U.S. INTERESTS AND GOALS: Due to its tremendous oil and gas resources, Kazakhstan continues to generate significant U.S. interest. The country's importance is further reflected by its size and strategic location, which make it not only a major player in the war on terrorism, but also the key to economic development for Central Asia. Kazakhstan's reform agenda directly advances U.S. national interests by ensuring stability and promoting economic and democratic reform. The growing infectious disease rates in Kazakhstan also provide rationale for U.S. engagement in the country.

DONOR RELATIONS: Virtually all the major multi-national donors are active in Kazakhstan, as well as many important bilateral donors such as the European Union (EU), British, Germans, Japanese, Swiss, Danish, and Canadians. The United States is the largest bilateral donor by far, but is surpassed by the European Bank for Reconstruction and Development (EBRD) in terms of assistance level due to the bank's large infrastructure and equity financing projects. Within the economic growth sector, principal donors assisting with small/medium enterprise development, financial institution development, business environment strengthening, and construction of public utility/transportation infrastructure include the EBRD, International Bank for Reconstruction and Development (IBRD), EU, Asian Development Bank, Islamic Development Bank (IDB), U.N. Development Program (UNDP), GTZ, and JICA. Additionally, EU and GTZ are providing assistance in the agricultural sector; and the UNDP, WB, EBRD, Swiss, Canadians, British, and Danish are assisting with energy and water sector reforms. Open Society Institute, the EU, GTZ, and the Organization for Security and Cooperation in Europe support initiatives related to democracy and governance while the U.N. organizations, World Bank, International Federation of Red Cross and Red Crescent Societies, and the German Development Bank are engaged in the health sector.

CHALLENGES: While the Government of Kazakhstan is openly supportive of USAID's programs related to small/medium enterprise development, improvement of the trade environment, expansion of primary health care services, disease control, natural resources management, and conflict prevention, national level commitment for our democracy-related work is not forthcoming. USAID's challenge is to capitalize on ministries and officials that are supportive of our various reform efforts; and, where there is no government commitment, to identify and work with local governments and NGOs that are eager to push the reform agenda. A second, related challenge is the need to develop civic consciousness and advocacy throughout society so as to develop a strong, grass-roots effort to press for reforms that are not very popular with the Government of Kazakhstan. Other challenges include the difficulty of creating a robust middle class, eliminating barriers to foreign investment, and diversification of the economy. Overcoming the declining health status and controlling sharp rises in HIV/AIDS and TB also are difficult issues faced by USAID.

KEY ACHIEVEMENTS:

IMPROVED ENVIRONMENT FOR SMALL AND MEDIUM ENTERPRISES: This program seeks to address the most binding constraints to private investment and the growth of small/medium enterprises. USAID's assistance in the development of the mortgage industry showed impressive results as mortgage lending surpassed \$200 million, up from \$40 million the previous year, and mortgage lending rates reached an all time low of 15% from a high of 27% in 1999. Additionally, through technical assistance, USAID helped the banking sector grow, with deposits as a percentage of GDP now estimated at 17.44% (up from 16.09% in 2002) and individual deposits now \$2 billion (an increase of 50% since last year). Our work with advocacy and management was effective, as USAID-supported business associations played a larger role in influencing government policy and creating positive change in land acquisition processes and the tourism industry. USAID's micro and small loan program, which provided 31,400 loans (a total loan volume of \$170.4 million) and training to 540 loan officers in FY 2003, assisted commercial banks to secure 47 trade deals worth over \$2.5 million. Through direct technical assistance to the Government of Kazakhstan, USAID improved laws governing taxes as well as the government budgeting process, thereby making both more transparent and improving decision making. USAID technical assistance also improved the transparency of government spending by developing auditing standards (now used by all public sector auditors) and assisting the Parliament Fiscal Analysis Unit to conduct analyses of budgetary and fiscal issues. On the business advisory front, USAID provided long and short term business and

trade advisory services to over 168 businesses in Kazakhstan over the past year; and facilitated trade deals worth nearly \$14.9 million for 65 businesses, resulting in a 40% increase in sales, a 24% increase in productivity, and 734 jobs created. USAID also trained approximately 300 professors from throughout the country in modern business and economics education.

STRENGTHENED DEMOCRATIC CULTURE AND INSTITUTIONS: USAID develops civil society organizations in Kazakhstan through support to a national network of NGO resource centers; provision of training, institutional grants, and legal support to individual NGOs; and community mobilization. The most notable accomplishment during FY 2003, was the success that a coalition of more than 200 NGOs achieved, with USAID support, in forcing the government to withdraw a restrictive draft NGO law. USAID's civic education work also has achieved positive results: 98% of teachers involved in the program report that USAID's civic education textbook (available in 577 schools) was very effective in helping students better understand the role of citizens in a democracy. Through USAID, political parties in Kazakhstan received capacity-building training related to constituency outreach, platform development, and campaigning, enabling them to field substantial campaigns during the fall elections. Another USAID success is related to training in television stations, including a national network, to produce more investigative reports. Through particularly intense work, USAID also succeeded in reducing the government's rating from Tier III to Tier II in the U.S. Department of State's Trafficking in Persons report.

INCREASED ACCESS TO QUALITY HEALTH CARE: The USAID health program works to expand primary health care services within Kazakhstan and to prevent infectious diseases such as HIV/AIDS, TB, and malaria. USAID's assistance in primary health care now covers 41.5% of the population. USAID support helped to achieve a doubling of the government's expenditures related to health care and resulted in affirmation by the government that people have the right to choose their own doctor. Within USAID pilot sites, 36% of persons, up from 24% in FY 2002, now choose their own doctors. The Kazakhstan Business Women's Association, supported by USAID, has leveraged funding to extend the Red Apple Reproductive Health Hotline to three new cities, thereby increasing by 36.5% the number of phone calls from persons seeking confidential, factual reproductive health information. In addition, the USAID-funded small grant program, Healthy Communities, has competitively financed 19 health projects that benefit communities across the country. A particular highlight is the start of a new two-year family medicine residency program, which began at the Almaty Post Graduate Institute and at four medical schools in December 2002, as a result of USAID assistance. To further strengthen family medicine, USAID is supporting the Kazakhstan Association of Family Practitioners (12 branches and 1,187 members) through training. A recently-concluded external evaluation noted USAID's contribution toward TB control in Kazakhstan, particularly the training that USAID provided to personnel working in TB facilities. Results from nationwide monitoring indicate that USAID assistance has helped both laboratories (90.4%) and health care facilities (79.7%) attain average scores on the minimum TB laboratory standards checklists. These figures are up from 78% and 77%, respectively in FY 2002. Through targeted work in prisons, where TB rates are particularly high, case notification has improved by 53% and TB mortality has decreased by 30%. USAID, in collaboration with the Centers for Disease Control and Prevention, has established four HIV sentinel sites to collect reliable information on HIV levels in high-risk populations. Furthermore, USAID's preventive work has reached 5% of intravenous drug users nationwide (via 12 HIV/AIDS NGOs), increased access to affordable, high quality condoms and trained 260 peer educators and 43 teachers to deliver preventive information to youth.

IMPROVED MANAGEMENT OF CRITICAL NATURAL RESOURCES: Kazakhstan's energy and water resources are often wasted through mismanagement since natural resource managers traditionally lack the skills required for efficiency and conservation. USAID's activities in energy broaden and deepen public advocacy in natural resources and promote related transparency, openness, and public participation through well-planned pilot demonstration models, effective training, public outreach, and technical assistance. During FY 2003, successful heating efficiency demonstration models were completed in Atyrau, resulting in a 26% energy savings in the city during last year's heating season and convincing authorities to acquire and install, from their own resources, additional equipment at 18 more locations. One of USAID's most notable accomplishments in this sector is its continuing support for the Kazakhstan Electricity Association, the Kazakhstan Petroleum Association, and the Kazakhstan Business Association for Sustainable Development, through which each has gained recognition as powerful

advocates for environmental and energy-related issues. Innovative training for officials at the Ministry of Energy and Mineral Resources has ensured that well-recognized tendering procedures will be adopted and used in a series of planned oil and gas leasing tenders during FY 2004. USAID's work with the City of Almaty, Department of Social Protection, was responsible for significantly improving both the level of customer service by the department, as well as the coverage of the city's safety net program to assist the poor in paying electric bills. Since FY 2002, the department has increased by 13% (from 9,000 to 10,200) the number of poor that it is able to assist.

CONFLICT VULNERABILITY: Kazakhstan's vulnerability to conflict arises from a vast income gap, concentration of political power, and lack of economic opportunities for urban youth, all of which increase the attractiveness of extremist organizations and the drug culture. Though Kazakhstan does not suffer from open conflict, the potential for conflict to erupt given income disparities, limited economic opportunities, and an oligarchic government is present. At the end of FY 2003, USAID had implemented 21 conflict prevention programs in 12 communities in Southern Kazakhstan and Zhambul oblasts, directly benefiting 75,000 people through repair of health clinics, water systems, and schools.

GENDER: A key cross-cutting objective in USAID's program in Central Asia relates to gender. USAID's program addresses gender disparities in a variety of ways. For example, in the health care sector, primary health care activities help to improve health care services tailored to the distinct needs of men and women. Additionally, a new anti-trafficking program addresses the specific causes of human trafficking as they relate to both men and women, and participant training in Kazakhstan benefits both men and women equally (of more than 3,000 participants in FY 2003, 50% were women).

TRADE CAPACITY BUILDING: USAID's trade and investment advisors worked with the public and private sector in five oblasts to reduce burdensome legal and regulatory constraints to businesses. In Almaty, trade advisors supported a participatory process by which the procedures for acquiring land and obtaining building permits were streamlined. In FY 2003, the Government of Kazakhstan adopted a new Customs Code, based on USAID cooperation begun with the Ministry of Revenues in FY 2002. The Code includes significant advancements for compliance with World Trade Organization requirements, with the exception of provisions related to customs valuation. Through training of consultative councils, comprised of representatives from businesses and customs administrations, USAID is promoting modern principles related to risk management, due diligence, and customs to resolve issues related to cross-border trade.

Country Close and Graduation:

Results Framework

- 115-0110 Privatization**
- 115-0120 Increased Soundness of Tax and Budget Policies and Administration**
- 115-0130 Accelerated Development and Growth of Private Enterprises**
- 115-0131 An Improved Environment for the Growth of Small and Medium Enterprises**

SO Level Indicator(s):

A Business Environment Index

- IR 1.3.1** Increased Opportunities to Acquire Business Information, Knowledge, and Skills
- IR 1.3.2** More responsive financial institutions, instruments and markets
- IR 1.3.3** Increased implementation of laws and regulations

- 115-014 A More Competitive and Market Responsive Private Financial Sector**
- 115-0150 Energy**
- 115-0160 Environmental Management**
- 115-0161 Improved Management of Critical Natural Resources, Including Energy**

SO Level Indicator(s):

Number of Demonstration Models Replicated in the Central Asia Region

- IR 1.6.1** Increased management capacity in natural resource sector
- IR 1.6.2** Improved policy and regulatory framework
- IR 1.6.3** Sustainable models developed for integrated natural resources management
- IR 1.6.4** Public commitment established for natural resources management policies

- 115-0210 Citizen Participation**
- 115-0211 Strengthened Democratic Culture Among Citizens and Target Institutions**

SO Level Indicator(s):

Percent of Target Population Exhibiting Civic Consciousness

- IR 2.1.1** Stronger and More Sustainable Civic Organizations
- IR 2.1.2** Increased Availability of information on civic rights and domestic public issues
- IR 2.1.3** Enhanced opportunities for citizen participation in governance
- IR 2.1.4** More Effective, Responsive, and Accountable Local Governance

- 115-0220 Rule of Law**
- 115-0230 More Effective, Responsive, and Accountable Local Governance**
- 115-0240 Conflict Mitigation**

SO Level Indicator(s):

Percent of Communities Resolved Conflicts

- IR 2.4.1** Strengthened Community Participation
- IR 2.4.2** Improved Local Services Through Community Decisions

- 115-0310 Humanitarian**
- 115-0320 Increased Utilization of Quality Primary Health Care for Select Populations**

SO Level Indicator(s):

Percent of children less than one year of age completely vaccinated against hepatitis B (HBV)

Percent of total outpatient visits that occurred in PHC practices in pilot cities

Percent Sputum Smear Positive TB Patients cure through DOTS in Pilot Sites

- IR 3.2.1** Select populations are better informed about personal health care rights and responsibilities
- IR 3.2.2** Improved quality of health care including infectious diseases and maternal and child health
- IR 3.2.3** Improved use of health care resources for primary health care
- IR 3.2.4** Improved legislative, regulatory and policy framework

- 115-0330 Environmental Health**
- 115-0340 Improved Quality and Access to Basic Education in Target Areas**
- 115-0420 Cross-Cutting Programs**